

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

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AMEMBASSY KUWAIT

AMEMBASSY JIDDA

LIMITED OFFICIAL USE EC BRUSSELS 11288

E.O. 11652: NA

TAGS: EFIN EEC

SUBJECT: EC COMMON BORROWING FACILITY--EC PLANS TO GO AHEAD WITH
SMALL BORROWING FOR IRELAND

REFS:

A. EC BRUSSELS 11248

B. EC BRUSSELS 10375

C. EC BRUSSELS 10804

D. ROME 18341

1. SUMMARY; IRELAND INDICATED INFORMALLY TO THE EC FINANCE
MINISTERS THAT IT WOULD LIKE A LOAN OF ABOUT \$300 MILLION FROM
THE EC COMMON BORROWING FACILITY. THE COMMISSION NOW PLANS
TO ARRANGE A BORROWING FROM SAUDI ARABIA. THE FINANCE COUNCIL
IS EXPECTED TO APPROVE THE LOAN IN JANUARY. THE COMMISSION
PLANS TO MAKE THE FACILITY AVAILBLE TO OTHER MEMBER STATES.
ADDITIONAL BORROWINGS WOULD LIKELY COME FROM THE EUROMARKET.
END SUMMARY.

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2. THE EC FINANCE MINISTERS TOOK UP THE PROPOSED LOAN TO
IRELAND FROM THE EC COMMON BORROWING FACILITY AT THEIR

INFORMAL MEETING ON DECEMBER 15 IN BRUSSELS (SEE REF A). IRELAND INDICATED THAT IT WANTED TO GO AHEAD WITH A LOAN OF ABOUT \$300 MILLION FROM THE FACILITY EARLY NEXT YEAR. THERE WAS GENERAL AGREEMENT TO THIS REQUEST AND THE MINISTERR PLAN TO ACT FORMALLY ON IMPLEMENTING THE FACILITY AT THEIR NEXT FINANCE COUNCIL MEETING ON JANUARY 19.

3. EC COMMISSION OFFICIALS SAY THAT THEY NOW PLAN TO CONTACT SAUDI ARABIAN OFFICIALS TO FINALIZE ARRANGEMENTS FOR THE COMMUNITY'S PROPOSED BORROWING OF \$300 MILLION. THE COMMISSION DOES NOT PLAN TO FOLLOW UP THEIR CONTACTS WITH KUWAIT AT THE PRESENT IME BECAUSE ADDITIONAL FUNDS ARE CURRENTLY NOT NEEDED. THESE OFFICIALS ADD THAT ITALY IS STILL UNDECIDED ABOUT ITS LOAN APPLICATION. THEY DO NOT EXPECT THE COUNCIL TO TAKE ACTION ON THE ITALIAN APPLICATION IN JANUARY, BUT ITALY MAY REQUEST A LOAN LATER ON NEXT YEAR.

4. SEVERAL SYNDICATES OF COMMERCIAL BANKS HAVE TOLD THE COMMISSION THAT THEY COULD ARRANGE AN EC PLACEMENT IN THE EOROCURRENCY OR EUROBOND MARKET OF UP TO ABOUT \$1.5 BILLION. THE FINANCE MINISTERS WERE NOT OPPOSED TO BORROWING ON THE EUROPAMARKET, BUT FRG FINANCE MINISTER APEL INDICATED SOME CONCERN OVER A EUROCURRENCY BORROWING BUT NOT A EUROBOND OPERATION. THE COMMISSION HAS CONSEQUENTLY INFORMED ITALY AND OTHER POTENTIAL BORROWERS THAT FUNDS WOULD LIKELY BE AVAILABLE. SHOULD THEY DECIDE TO USE THE FACILITY. THE COMMISSION NOW LOOKS UPON THE FACILITY AS AN ONGOING MECHANISM WHICH MEMBER STATES COULD USE WHENEVER IN NEED OF FINANCING. THE BORROWING COSTS IN THE EUROMARKET, HOWEVER, WOULD BE MORE EXPENSIVE THAN A BORROWING DIRECTLY FROM OPEC COUNTRIES. COMMISSION OFFICIALS ESTIMATE THAT THE EC GUARANTEED BORROWING WOULD HAVE AN EFFECTIVE INTEREST RATE OF 9.5 OR 9.6 PERCENT, BUT THIS WOULD BE CONSIDERABLY CHEAPER THAT THE TERMS THAT EITHER THE UK OR ITALY COULD OBTAIN ON THE MARKET.

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5. THE UK HAS NOT INDICATED THAT IT WANTS A LOAN FROM THE FACILITY BUT THE COMMISSION BELIEVES IT COULD ACT QUICKLY SHOULD IT WANT ONE. THE MONETARY COMMITTEE HAS REGULARLY REVIEWED THE UK ECONOMIC SITUATION AND IT COULD EASILY FORMULATE ECONOMIC POLICY CONDITIONS, WHICH ARE REQUIRED UNDER A FACILITY LOAN.

6. COMMISSION OFFICIALS SAY THE 1976 POLICY CONDITIONS PROPOSED BY THE MONETARY COMMITTEE FOR IRELAND AND ITALY (SEE REF C) ARE NOW ESSENTIALLY ADOPTED. THE FINANCE

MINISTERS HAD NO PROBLEM WITH THE PROPOSED CONDITIONS.
WHEN THE FINANCE COUNCIL TAKES UP THE IRISH LOAN
APPLICATION IN JANUARY IT IS EXPECTED TO APPROVE
FORMALLY BOTH THE IRISH AND ITALIAN CONDITIONS. THE
ITALIAN CONDITIONS ARE REQUIRED UNDER THE EC MEDIUM-
TERM CREDIT TO ITALY. (THE MISSION IS SENDING COPIES
OF THE MONETARY COMMITTEE'S PROPOSED CONDITIONS TO
INTERESTED WASHINGTON AGENCIES, INCLUDING STATE/RPE/CLARK
AND AMEMBASSIES ROME AND DUBLIN.)
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